



City Councilmember
Carl DeMaio

PENSION REFORM OPTIONS

Reform Item	Desired State	Legal Basis
End SPSP Pension Contributions¹	Eliminate the mandatory employer match of 3%. Given that the defined benefit plan is so generous, SPSP is no longer legally required.	YES – SPSP is a discretionary term of employment and was eliminated for one labor union in waiver process.
Eliminate Subsidy for Politicians Pensions²	Remove language in the city's municipal code that caps the net amount charged to city politicians for their pensions. Allow the real cost to be charged annually.	YES – Contribution rates are not vested and if challenged, either a waiver process or reduction in base salary can achieve reform goal.
Eliminate Employee Pension Offsets³	City employees should pay their fair share for pension benefits – taxpayers should not have to "pick up" employee contributions in addition to employer contributions.	YES – Offsets are a discretionary term of employment and were eliminated for several labor unions already.
Enact Higher Contribution Rates⁴	The City Charter requires "substantially equal" contributions by taxpayers and city employees for "cost of normal retirements."	YES – Courts have determined that contribution rates can reformed without violating vested rights.
Adopt Net Compensation Cap for Each Job Classification⁵	To force city employees to chose between salary today or big benefit payouts in retirement, the city should cap total cost of compensation (salary and benefits) per city classification. Caps should be based on the cost of reformed pension tiers for new hires. If an employee receives more costly benefits, a corresponding reduction is made in base salary.	YES – Courts have determined that employers can adjust compensation packages. The city should adopt labor contracts that contain "net caps" on compensation costs per employee classification.

¹ See full memo by Councilmember DeMaio on January 21, 2009.

² See full memo by Councilmember DeMaio on August 29, 2010.

³ See full memo by Councilmember DeMaio on January 21, 2009.

⁴ See full memo by Councilmember DeMaio on December 4, 2009.

⁵ See outline of concepts by Councilmember DeMaio in August, 2009.

Create Opt-Out Program⁶	In concert with the reforms above to increase employee contributions for the true costs of their pension benefits, an opt-out program should be created to allow employees to switch to more affordable pension tiers. Saves both taxpayers and employees substantial funds.	PENDING – From a vesting perspective, there are no barriers to implementing this reform. However, the IRS must first sign-off on opt-out programs.
Achieve DROP Cost Neutrality⁷	Contrary to claims by city leaders that DROP has been “eliminated,” the vast majority of employees can still receive DROP. If an employee enters DROP, the city should reduce salary to achieve cost neutrality for taxpayers.	YES – Courts have determined that DROP can be reformed without violating vested rights – it is a term of employment subject to offset and modification.
Create New Affordable Pension Tiers⁸	To reduce costs of pensions for new hires and provide lower tiers for the Opt-Out Program, several retirement options should be provided to employees.	YES – The City can legally change pension plans for new hires. Once in place, and in concert with other reforms, existing employees can then opt-into these lower-cost tiers.
Negotiated Global Settlement and Pension Reform⁹	Provide city labor unions with a settlement plan for approval using a reform mechanism contained in the City Charter. To get deal, provide incentives (no pay cuts; fund stability; more take-home pay with lower contribution rates) and action-forcing mechanism (pay cuts, layoffs, and/or long-term pay freezes)	PENDING – SDCERS counsel and other legal experts confirm that benefits for <u>existing employees</u> can collectively be reformed through a vote of Charter Section 143.1.
Long-Term Pay Freeze (or Cut)	Pension liability (and associated payouts per employee) are driven by salary increases. Absent reforms above, the city can implement pay cuts and/or 5-8 year salary freeze (including no STEP increases.)	YES -- Courts have determined that employers can adjust compensation packages.

⁶ See full memo by Councilmember DeMaio on December 4, 2009.

⁷ See full memo by Councilmember DeMaio on October 9, 2009.

⁸ See full memo by Councilmember DeMaio on December 4, 2009.

⁹ See full memo by Councilmember DeMaio on December 4, 2009.